

Data, the “New Oil”, Hits an Oil Slick

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While news of Facebook’s shoddy data practices broke with respect to Cambridge Analytica and the 2016 election, we were patting ourselves on the back for having bought an under-the-radar data company playing an integral role in the online marketing ecosystem. Almost immediately after purchase, our shares in Acxiom were trading higher, until the last day of the quarter when Facebook decided to cut off Acxiom’s data broker as a third-party data provider on Facebook. The stock plummeted and at its worst was down over 40% from the prior week. Nonetheless, our conviction in Acxiom remained steadfast amidst the panic and we have since purchased more shares and dropped our average price accordingly.

This entire situation is one of the more unique and exciting ones we have seen in recent times. Before the Facebook news hit, Acxiom was lifting off on the heels of its intent to sell its legacy business—Acxiom Marketing Solutions—leaving its Connectivity segment (LiveRamp) as a standalone, pureplay growth company in an intriguing industry. Acxiom will surely lose some business from the Facebook change, but the vast majority of the value in this investment comes from the LiveRamp segment—a largely hidden jewel within the broader company. Acxiom acquired LiveRamp in 2014 and has scaled the business rapidly since.

LiveRamp is what is known as a data onboarder. Data onboarders help companies store, manage and use their data in constructive ways. A 2014 FTC report on data brokers defined “onboarding” as follows:

“Onboarding” refers to a process whereby a data broker adds offline data into a cookie (the process of onboarding offline data) to enable advertisers to target consumers virtually anywhere on the Internet. It allows advertisers to use consumers’ offline activities to determine what advertisements to serve them on the Internet.

Onboarding clients either (1) provide data about their customers to a data broker to facilitate the process of finding those consumers on the Internet to deliver targeted advertisements; or (2) use a data broker to identify an audience of consumers who are likely to share particular characteristics and find those consumers on the Internet to deliver advertisements. Three of the data brokers offer an onboarding product.

Onboarding typically includes three steps: (i) segmentation; (ii) matching; and (iii) targeting.^[1]

There are elements of this definition that are not entirely accurate and nuances to how onboarding is deployed, but LiveRamp is essentially the only onboarder with robust offline to online capabilities. This being central to the FTC’s definition is demonstrative of how dominant LiveRamp is in the space. Importantly, it’s the kind of industry where network effects are key determinants of customer stickiness and growing value. The more data an onboarder has, the better its match rate will be (LiveRamp’s are the best) and the more use-cases that can be deployed on the platform. LiveRamp boasts a market share over 2x the next largest competitor and importantly, the key competitors including Oracle’s OnRamp

(purchased in the \$1.2b Datalogix acquisition in 2015) and Neustar are both heavily reliant on LiveRamp as key customers. Essentially, LiveRamp competitors cannot compete without access to LiveRamp itself and the role of competition has been relegated to either white labeling LiveRamp's pipes or serving specific niches with unique, but not scalable value propositions.

LiveRamp makes money by charging its users subscription fees and tiered pricing depending on use. The majority of revenue comes from usage fees, and as such, the more use-cases LiveRamp can develop, the more it can grow its relevance and revenue base from customers new and old alike. Once the disposition of AMS is complete, LiveRamp will enjoy enhanced financial flexibility to deploy in developing and acquiring tuck-in applications that can expand the capabilities users will have on the platform. A recent example of such a move is the company's acquisition of Pacific Data Partners to grow the B2B use-cases for LiveRamp.^[2]

LiveRamp has been nurtured under smart, strong leadership. Scott Howe, Acxiom's CEO, came to the company in 2011 from Microsoft, where he was the company's top ad executive in charge of advertiser and publishing solutions, including Bing. As Howe explains, "The Axiom I walked into four years ago was really a legacy direct-mail database company but had developed some really great assets that could be extended to other channels and can be repurposed for the entire industry, and that's the transition we've been making over time."^[3] Howe's CFO, Warren Jenson, was an early CFO at Amazon where he is credited with helping lead the company to profitability in the wake of the dot com bust. The management team has been focused and determined in driving shareholder value and has held on to a material equity position in order to position for the upside they ultimately intend to achieve.

While we have adjusted our expectations for the full brunt of the Facebook hit, we think there are very real mitigants to this loss. Companies like General Motors which advertise on Facebook by nature rely on third party data—dealers sell the cars, not GM, so as such, GM needs to stitch together a profile of its own end customers. In the past, Facebook enabled Acxiom's data to be sold directly on the platform. That will stop in the second half of this calendar year; however, this revenue can be replaced in the following process, by way of example:

- GM can now buy this data directly from Acxiom.
- GM can then create its own custom audiences, in its own files
- GM can upload those newly created customer audiences as "1st party data" for Facebook's purposes
- Advertisements can be targeted exactly as they had been on Facebook before

LiveRamp's revenue run-rate has grown from \$16m annualized in Q1 of 2015 (shortly after Acxiom acquired it) to \$224m annualized in Q3 of 2018. The average customer spends over \$1.7m per year on the platform and revenue retention is at 110%. At the shares' worst price on Friday, March 30th, we think LiveRamp itself was worth more than the entire company even though the legacy company will do around \$130m in EBIT after accounting for the Facebook hit.

If the AMS business fetches 4-5x EBITDA, the company will get between \$1 and \$1.4 billion in proceeds. Despite the Facebook news, the Acxiom remains intent on selling its AMS business and focusing purely on LiveRamp. Should a sale not materialize (though the company sounds confident it will) they can consider a spinoff instead. One way or another, LiveRamp will come to be independent in the near future. It's large enough, self-sustainable on its own cash flow generation, and poised to benefit from strategic flexibility and customer relationships that

were limited by its corporate parenthood. Assuming AMS fetches the low-end of our expected proceed range, that leaves half of the company's value to be accounted for by a \$224m run-rate business growing at rates upwards of 40%, likely to grow in the mid-30s for the upcoming year, with the potential to reaccelerate growth with the strategic flexibility afforded by being a standalone pure-play. Our bear case on a sum of the parts is that Acxiom is worth \$27 per share, base case is \$40 per share and bull case is \$58 per share. Looking out further, standalone LiveRamp has the potential to capture a large and growing total addressable market and will very likely catch the eye of the well-capitalized behemoths who facilitate online advertising with their software solutions. It's only a matter of time before this Facebook news is far in the rearview mirror.

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